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Item 6 of the provisional agenda

INDUSTRIAL INVESTMENT PROMOTION

Implementation of actions called for in decision IDB.6/Dec.15

Progress report by the Director-General

Summary

Reports on action requested in Board decision IDB.6/Dec.15, including UNIDO response in promoting the flow of investment to developing countries, fostering regional investment promotion and strengthening coordination with relevant organizations concerned with investment promotion.

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Introduction

1. At its sixth session, the Industrial Development Board adopted resolution IDB.6/Dec.15 in which the Director-General was requested to continue to promote the flow of investment to developing countries, encouraging the establishment of institutions devoted to this purpose, subject to informing the Board beforehand and the strengthening of existing institutions through the Industrial Investment Division, in accordance with General Conference resolution GC.3/Res.19, paragraph 2 (a) and (f).

Other actions requested of the Director-General in that decision included: the continuation of work on and submission of the study referred to in Conference resolution GC.3/Res.19 on the possibilities and different modalities of fostering regional investment promotion activities; the increase in the participation of representatives of developing countries in the delegates programmes of the Investment Promotion Service (IPS) offices; and the strengthening of coordination with the United Nations regional commissions, regional development banks and other organizations concerned with promoting investment at regional and international level. The Director-General was also invited to report to the Board at its eighth session on the implementation of the actions called for in Board decision IDB.6/Dec.15: the present report is submitted in compliance with that request.

I. PROMOTING THE FLOW OF INVESTMENT TO DEVELOPING COUNTRIES

2. The UNIDO industrial investment programme aims at mobilizing not only foreign financing but also other resources of a technical or managerial nature that are required for the implementation of investment projects, including joint financing for completing pre-investment studies. The activities of UNIDO consist of designing and implementing integrated technical cooperation industrial investment programmes that are made up of several components. In the design of such integrated programmes every effort is made to tailor the component activities of each programme to the specific needs of the country concerned for foreign investment. The programmes thus designed are mostly for projects of a small to medium size and generated for national private entrepreneurs.

Investment promotion projects undertaken at the national institution level usually serve to demonstrate the type of practical-level activities that are required in order to ensure the implementation of investment projects. The enhancement of a national investment climate is an important and inherent objective of UNIDO's investment activities. To achieve a favourable investment climate the programmes may include the establishment or strengthening of national institutions charged with the mobilization of foreign investment resources, the revision of investment encouragement legislation, the preparation of investors' guides and other promotional documentation, the identification, formulation, screening and promotion of specific investment projects, the organization of country presentation tours, the holding of investment forums and participation in the investment resources mobilization orientation programme at the UNIDO IPS offices for delegates from developing countries (see paras. 18 to 21 below).

3. The additional staff resources allocated to the UNIDO investment programme in the budgets for the 1990-1991 biennium and a revised organizational structure that now provides a regional focus in the Industrial Investment Division (cf. Director-General's Bulletin UNIDO/DG/B/126 of 2 April 1990) have contributed to an increase in the dollar value of the industrial investment technical cooperation programmes implemented in developing countries - from \$5.5 million in 1989 to \$8.4 million in 1990 (cf. Annual Reports of UNIDO, 1989 (IDB.6/10) and 1990 (IDB.8/10), chapter III and statistical annex, table 5). This rate of increase is expected to be maintained and even augmented with the implementation of the recommendations emanating from the evaluation of the industrial investment activities of UNIDO (see para. 24 below).

4. In addition to the dollar value criteria, the success of the industrial investment programme in achieving its objectives can also be measured in terms of investment projects whose promotion is successfully concluded.* The number of investment projects concluded increased from 143 in 1989 to 170 in 1990 and the total monetary investment involved in these projects rose from \$556 million in 1989 to \$699 million in 1990. However, these figures represent only those projects on which UNIDO was able to obtain information; in fact, owing to the relatively long period of time between the promotion of a project by UNIDO and the successful conclusion of its promotion, UNIDO is not always informed of all projects actually concluded. The length of this time period is illustrated by the recently completed project promoted by UNIDO in Madagascar. A Malagasy company dealing with the production of duck livers, and in business since 1980, received UNIDO assistance in various forms: identification and formulation of the investment project and its subsequent promotion in 1986, discussion of the project with potential foreign partners at the regional investment promotion forum organized by

UNIDO in Mauritius in 1987, and the preparation of a partnership agreement in 1989. After the required Economic Community approval was received for the export of duck livers to Europe, the partnership agreement prepared by UNIDO was signed between the Malagasy company and a French company. Delivery of duck livers to Europe commenced late in 1990 and in early 1991 the success of the Malagasy company culminated with the receipt, in Europe, of an international award for its duck meat products. Thus, a four-year period was spanned from the initial assistance to a successfully concluded project.

5. At all stages of the design, development and implementation of its industrial investment technical cooperation programmes UNIDO maintains close contacts with the United Nations regional economic commissions, development banks and other organizations concerned with promoting or financing investment at national, regional and international levels. Some of these contacts are described in the Annual Report of UNIDO, 1990 (IDB.8/10, chap. III, paras. 39-44).

6. The recently completed report on the evaluation of the industrial investment activities of UNIDO (ODG.12(SPEC)) reveals that one of UNIDO's strongest potential comparative advantages in support of its enterprise-oriented activities is its world-wide network of contacts. This network, which includes but is not limited to IPSs, provides Governments with access to valuable investment information. Currently, UNIDO operates nine IPSs, located in Cologne, Milan, Paris, Seoul, Tokyo, Vienna, Warsaw, Washington and Zurich. Discussions are under way with the Governments of Czechoslovakia, Greece, Iran (Islamic Republic of), Portugal, Turkey and the United Kingdom of Great Britain and Northern Ireland with a view to establishing IPS offices in those countries. The Warsaw and Seoul IPS offices are located in countries which, while themselves IPF recipients, nevertheless devote considerable resources to the promotion of outward investment to other developing countries.

7. With regard to the establishment/strengthening of national capabilities of individuals and institutions, examples of UNIDO assistance extended in Africa include the Uganda Manufacturers Association and the Uganda National Chamber of Commerce and Industry, the Ghana Investment Centre, the Kenya Ministry of Industry and Investment Promotion Centre and the Zambian Confederation of Chambers of Commerce and Industry. In the Asia and Pacific region assistance was extended to Sri Lanka and Viet Nam; in the Latin America and the Caribbean region to Bolivia, Ecuador and Mexico; and in the Arab countries, Europe and the Mediterranean region to Czechoslovakia, Poland and Saudi Arabia (cf. Annual Report of UNIDO, 1990 (IDB.8/10, chap. III)).

II. REGIONAL INVESTMENT PROMOTION ACTIVITIES

UNIDO experience in fostering regional investment promotion activities

8. Technical cooperation industrial investment programmes and specifically investment forums provide the opportunity not only for individual national investors to seek investment resources from industrial countries in a North-South direction, but also provide the opportunity for national investors from different countries in one

* An investment project whose promotion is considered successfully concluded occurs when the developing country investor and a prospective foreign partner have reached agreement in principle to cooperate in implementing a given investment project.

region to interact among themselves and identify business opportunities on a regional basis. Many of the UNIDO industrial investment technical cooperation programmes are organized for regions or groups of countries, rather than for individual countries, thus giving rise to enhanced possibilities for intra-regional investment and trade. For example, in Africa the investment forum for the member States of the Preferential Trade Area for Southern and African States (PTA) was attended by 271 national investors from the 16 PTA countries and the forum for members of the Economic Commission of Western Asian States by 268 national investors from the 16 countries of the subregion. African investors have concluded a number of industrial cooperation arrangements among themselves, but it is not possible to report on specific intra-African agreements in this field owing to lack of sufficient information.

9. UNIDO experience in regional investment promotion indicates that although many developing countries have realized the importance of regional investment cooperation and have sought to encourage it through various means, progress has been relatively slow. The traditional North-South direction of investment cooperation is deep-rooted and well established. Changing this direction requires confidence building measures which in turn require time. Subjective attitudes have to be changed concerning the quality and reliability of goods and services available in neighbouring developing countries. The recent arrival of the Multilateral Investment Guarantee Agency (MIGA) on the investment scene is expected to contribute to confidence building through guarantees against non-commercial risks. The involvement of national investors from different countries of a region in the technical cooperation investment programmes of UNIDO will also contribute to opening new South-South directions of investment resource flows. In this regard UNIDO is also examining modalities for promoting trilateral investment cooperation between joint ventures involving a North industrialist and a South industrialist which are well established and successfully operating and a third industrialist from another South country.

10. The reorganization of the work of the Industrial Investment Division to reflect a regional thrust (cf. para. 3 above) resulted in increasing not only the dollar value of industrial investment technical cooperation programmes implemented but also the number of investment projects promoted within the regions. From 1989 to 1990, the dollar value of technical cooperation programmes increased in the Latin American and Caribbean region from \$797,150 to \$969,307 and in the Asia and Pacific region from \$437,400 to \$1,202,000. Paragraphs 12 to 19 below provide a closer look at the progress of industrial investment promotion as seen from a regional perspective.

11. The preparation of the study requested in paragraph 3 of resolution GC.3/Res.19 (and reiterated in Board decision IDB.6/15) has been limited to research on the African region only, owing to staff and financial resource constraints. Inquiries continued with the United Nations regional commissions, the regional development banks and other national regional and international institutions concerned with investment promotion on a regional scale, as mentioned in paragraph 4 of IDB.6/9. The replies received have been reported on in the following paragraphs under the different regions. Until

sufficient resources become available to UNIDO for preparing the study, UNIDO will:

(a) Systematically expand the activities initiated during the current biennium to ensure that UNIDO is fully informed of developments in regional investment promotion in all developing regions and will endeavour to ensure that experience gained is disseminated to other developing regions;

(b) Endeavour to mobilize existing resources for undertaking the studies described in document IDB.6/9 (para. 4);

(c) Accord priority, in its ongoing and future activities, to the design of technical cooperation programmes to foster regional investment promotion, including trilateral cooperation, and to mobilize financial resources for the implementation of such programmes.

Africa

12. In 1989, the Co-ordination Unit for the Programme for the Industrial Development Decade for Africa (IDDA) prepared a study (ODG.10(SPEC)) on the identification, formulation, implementation and monitoring of multinational African industrial enterprises (regional projects) which formed the basis for a meeting of high level experts on the same subject, held in Vienna, Austria, in September 1989. At that meeting the opportunities and constraints, strengths and weaknesses of African countries and the modalities for the promotion of multinational investment projects were highlighted. Subregional meetings held from 1989 to 1991 on the promotion of intra-African industrial cooperation within the framework of the programme for IDDA also covered the subject area in detail for the subregions of Eastern and Southern Africa, Central Africa, the Preferential Trade Area of Eastern and Southern African States as well as for North Africa. These meetings again stressed the importance of modalities for the enhancement of regional investments and resulted in revised integrated industrial promotion programmes for the Second IDDA, including lists of project profiles identified for formulation or promotion and other projects already under implementation. These projects may be national ones, or "community" projects, involving two or more countries. It was also recognized at the meetings that if such projects were to stand a good chance of success, paramount importance must be placed on creating an economic environment conducive to a healthy investment climate through adequate policies, support industrial infrastructure and services, and strengthening of local capabilities and capacities.

13. In the past, various attempts had been made to establish regional enterprises in Africa. It appears these failed owing to deficient industrial policies, local capabilities and investment environment. In the view of African countries that participated in the subregional meetings of IDDA, the establishment of regional enterprises is no longer a matter of choice, but rather of necessity; those countries have clearly demonstrated their support for such enterprises. In drawing up programmes and identifying industrial investment projects for promotion, more importance therefore is being laid on the preparation of realistic pre-investment studies for investment projects, and to ensure their success, urgency is given to: supporting technical cooperation projects relating to human

resource development, acquisition and adaptation of technology; project formulation, appraisal and monitoring; setting up and strengthening of legal frameworks and institutional infrastructure; quality control and standardization; and research and development.

Asia and the Pacific

14. The UNIDO contacts described in document IDB.6/9 (para. 4), continued in 1990 with national, regional and international institutions dealing with regional investment promotion. As regards the Asia and Pacific region, the Asian Development Bank (AsDB) informed UNIDO that its Private Sector Department has not undertaken nor does it intend to undertake studies or activities related to the fostering of regional investment promotion activities. While that Bank undertakes surveys to identify possible private sector projects in individual developing member countries, there is no conscious effort made to identify projects that would attract investment resources from another country in the same region and to promote these projects within the region. The possibilities for providing co-financing and procurement of equipment and technical and managerial know-how for approved projects are open to all member countries of AsDB whether from within or outside the region. The Bank assumes that potential suppliers of these resources from within the region may have an advantage due to their proximity to the project, but AsDB nevertheless treats all potential suppliers equally in seeking the best arrangements for its borrowers. The Under-Secretary and Chairman of the Committee on Industry, Minerals and Energy (COIME) of the Association of South-East Asian Nations (ASEAN) advised UNIDO that COIME has developed industrial programmes such as the ASEAN Industrial Joint Venture Scheme (AIJV) and the Brand-to-Brand Complementation Scheme in the Automotive Industry, which aim at increasing regional cooperation and generating joint venture undertakings with ASEAN and non-ASEAN partners. In its effort to promote these schemes, ASEAN-COIME implemented with UNIDO a technical cooperation project for identifying and promoting projects for the AIJV scheme through the preparation of opportunity studies. At the last tripartite meeting, held at Manila in August 1990, COIME submitted to UNIDO two technical cooperation project concepts geared towards the improvement of the promotional activities for AIJV projects in ASEAN countries as well as outside the ASEAN region. However, owing to financial constraints, UNIDO was not in a position to approve the project concepts.

15. As a result of the integrated industrial investment technical cooperation programme implemented in Bangladesh (an Investment Forum was held in 1987), four investment projects with a total investment of about \$8.1 million were concluded with the participation of investors from the region (two from China, one from Hong Kong, and one from India). The Seoul IPS concluded a China/Republic of Korea joint venture for wooden products with a value of \$0.39 million. Another success was the Investment Forum for Viet Nam, held at Ho Chi Minh City in March 1991. From a total of 613 foreign participants, 257 were from the region, namely from Hong Kong, Indonesia, Japan, Malaysia, Republic of Korea, Singapore and Thailand. Project-related discussions were fruitful and some 20 letters of intent were signed, dealing especially with the agro-industry and light industry sectors.

Latin America and the Caribbean

16. As regards the Latin American region, UNIDO was informed that most of the regional investment promotion activities of the Inter-American Development Bank (IaDB) are components of technical cooperation projects for providing support to institutions engaged in promoting trade with and investment in the region. These institutions include: the Brazilian Ministry of Foreign Affairs, the Andean Development Corporation, the Uruguayan Chamber of Industry and Commission for Investment Promotion, the Costa Rican Coalition for Investment Initiatives, the Latin American Association of Development Financing Institutions (ALIDE), the Latin American Industrialists Association, and the Latin American Banking Federation.

17. As early as 1982, the report on Economic and Social Progress in Latin America included a chapter on technology exports within the region. The Institute for Latin American Integration (INTAL), an administrative unit of the Inter-American Development Bank undertook in recent years studies on technology transfer and managerial cooperation. The Economic Commission for Latin America and the Caribbean has also provided UNIDO with a list of ten studies on topics related to regional investment promotion.

18. In 1990, implementation began of an industrial investment programme for the Andean subregion with the participation of UNIDO, the United Nations Development Programme and the Andean Development Corporation (ADC). This two-year programme, which is aimed at identifying, formulating and promoting investment projects, including multinational projects from within the Andean Group, provides support, training and institution-building. Moreover, ADC provides guarantees for selected projects when required. This programme is innovative in that it combines the strengthening of an already existing regional organization, the fostering of intra-regional investment and the involvement of an organization that is simultaneously a financial and a development institution. In October 1991, at a meeting scheduled to be held at Caracas, Venezuela, entrepreneurs from the five Andean Group countries will be matched with foreign entrepreneurs. Concerning the Central America region, a programme has been drafted that includes the participation of the Central American Bank for Economic Integration, and discussions have begun for securing the financing for the programme. In October 1989, a UNIDO/ALIDE mission to Argentina, Brazil and Uruguay took note of the requests made by development financing institutions in those countries. In view of budgetary constraints, however, this programme will start on a modest scale by combining the resources of the two organizations concerned in an effort to identify and formulate selected projects originating from those financing institutions.

Arab States

19. With regard to the Arab region, the Inter-Arab Investment Guarantee Corporation (IAIGC) has informed UNIDO that it implements one of its important objectives, namely the promotion of investment within its member States, in cooperation with investment agencies in the Arab countries and that the flow of investments could be accelerated if national investment agencies could concentrate on improving promotion activities - i.e. identifying investment

opportunities, formulating marketing plans and executing such plans. IAIGC also informed UNIDO of its plans to convene a seminar, to which UNIDO will be invited, on the scope and techniques applied by different investment agencies in the Arab countries to attract Arab and foreign investment to those countries. The seminar will provide the opportunity to exchange experiences among Arab member States as well as between them and other foreign and international institutions in the field of investment promotion. The Economic and Social Commission for Western Asia (ESCWA) has implemented a number of activities aimed at fostering regional investment promotion. These activities cover capital goods and heavy engineering industries (telephone exchanges and instruments, electric power turbines and generators, transformers, telephone cables, power cables, equipment for chemical industries, integrated facilities for automation), cement production equipment and spare-parts, agro-food industries, high speed diesel engines and components, and engineering infrastructure industries (intermediates, forging, castings). Some of these ESCWA activities are jointly financed with: the Arab Industrial Development and Mining Organization, Arab Industrial Investment Company, Arab Fund for Economic and Social Development, Islamic Development Bank (IsDB), General Secretariat of Gulf Co-operation Council (GCC) and UNDP. In addition, ESCWA and UNIDO cooperated in the implementation of a programme, including the holding of an investment forum (Algiers, 7-8 May 1990), for the electronics industries, at which 33 investment projects were identified and promoted by UNIDO.

III. PARTICIPATION IN THE DELEGATES PROGRAMMES OF THE INVESTMENT PROMOTION SERVICE (IPS) OFFICES

20. The concept of the present "delegates' programme" operating within the various IPS offices, had its initial exposure in the New York IPS in 1978 (cf. ID/B/220, chap. III, para. 38). That year, 10 participants benefited for the first time in a programme that has three main goals: to improve their investment promotion skills; to enable them to promote priority investment promotion projects in their home countries; and to organize visits to their home countries by potential investors. In 1990, 32 participants were involved in the programme, and the demand for the programme is readily apparent from the steady increase in the number of potential candidates. However, the satisfaction of this demand is restricted by the limited space available for this purpose in the respective IPS offices.

21. The delegates' programme has proved a highly effective mechanism for promoting investment in developing countries (see section 2.3.4 of document ODG.12(SPEC)). The programme is especially effective when the placement of a delegate in an IPS occurs within the framework of a UNIDO-implemented industrial investment technical cooperation programme in the home country of the delegate. The delegate then can count on the support of a multidisciplinary team of UNIDO and national experts that includes:

- (a) The speedy provision of reliable information which enhances the image of the country as an attractive place to invest;
- (b) The effective and efficient reception, by the staff and experts attached to an ongoing programme of foreign entrepreneurs visiting the country;
- (c) The increased willingness of foreign partners to respond to the delegate since he is in

his home country and supported by a team that is often able to mobilize additional resources for the delegate and to provide assistance in concluding business cooperation agreements.

22. An analysis of the participation on a regional basis shows, for example, that four delegates from the African region participated in the programme in 1989 and three in 1990. During 1990 requests from delegates from countries such as Ethiopia, Ghana and Kenya could not be accommodated. From the Asia and Pacific region, 25 delegates from 10 countries participated in 1989 and the number remained at that level in 1990: 26 delegates from 11 countries. While in 1989 UNIDO was able to meet all requests from developing countries emanating from the Asia and Pacific region, in 1990 the demand exceeded the available places, and requests from a number of countries (e.g. Bangladesh, the Democratic People's Republic of Korea and India) could not be met. This situation is expected to continue throughout the 1991-1992 biennium. From the Latin American and Caribbean region, two delegates participated in the programme in 1989 and four in 1990. Several requests were received for the placement of delegates from Barbados, Bolivia, Chile, Ecuador, Guyana, Trinidad and Tobago, and several Central American countries, but these could not be accommodated because of lack of space at the IPS offices. From the Arab countries, Europe and the Mediterranean region two delegates (from Bahrain and Morocco) participated in the programme in 1989 and one (from Poland) in 1990. During the same year a number of requests were received from Algeria and Romania that could not be accommodated due to lack of financial resources and non-availability of space at the IPS offices.

23. UNIDO is exerting every effort to convince IPS host countries to expand the number of delegates that the IPS offices can accommodate. On the assumption that in future more space will become available in the IPS offices and that the number of IPS offices will also increase, a growth in the delegates programme has been planned for the 1992-1993 biennium. During that period, 85 participants from developing countries are scheduled to receive on-the-job orientation in the IPS offices, with a regional break-down as follows: Africa - 20 delegates; Asia and the Pacific - 40 delegates; Latin America and the Caribbean - 15 delegates; Arab States, Europe and the Mediterranean - 10 delegates.

IV. EVALUATION

24. The Board in its decision (IDB.5/Dec.12) had requested the Director-General to undertake in-depth evaluations of the important activities of the Organization, giving priority, among others, to industrial investment activities, namely (a) investment project identification and preparation and (b) investment projects promotion including the Investment Promotion Services. The in-depth evaluation of the industrial development activities of UNIDO took place from January to December 1990. The full report of the evaluation (ODG.12(SPEC.)) was circulated to the Permanent Missions to UNIDO on 23 April 1991. A summary of that report will also be made available to delegations at the eighth session of the Board as a conference room paper.

V. ACTION REQUIRED OF THE BOARD

25. The Board may wish to take note of the present report and provide further guidance.



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REPORT OF THE PROGRAMME AND BUDGET COMMITTEE ON THE WORK OF ITS SEVENTH SESSION

(22-26 April 1991)

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V. EXAMINATION OF 15 PER CENT RESERVE OF TOTAL APPROPRIATIONS	17 - 18	4	1. The Programme and Budget Committee held its seventh session at UNIDO Headquarters, Vienna International Centre, from 22 to 26 April 1991. All 27 members of the Committee participated in the session:				
VI. INTERIM FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT	19 - 20	4	Algeria, Bolivia, Brazil, Colombia, Czechoslovakia, France, Germany, Greece, India, Iraq, Italy, Japan, Kenya, Libyan Arab Jamahiriya, Nigeria, Norway, Philippines, Poland, Saudi Arabia, Switzerland, Thailand, Tunisia, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Venezuela and Zambia.				
VII. MEDIUM-TERM PLAN, 1992-1997	21 - 22	4	2. The following 45 Members of UNIDO also attended the session:				
VIII. PROGRAMME AND BUDGETS, 1992-1993	23 - 24	4	Argentina, Austria, Belgium, Bulgaria, Burundi, Byelorussian Soviet Socialist Republic, Cameroon, Canada, Chile, China, Denmark, Ecuador, Egypt, Finland, Hungary, Indonesia, Iran (Islamic Republic of), Ireland, Israel, Kuwait, Lebanon, Lesotho, Luxembourg, Malaysia, Mexico, Morocco, Netherlands, Oman, Pakistan, Panama, Peru, Portugal, Qatar, Spain, Sudan, Sweden, Turkey, Ukrainian Soviet Socialist Republic, United Republic of Tanzania, Uruguay, Viet Nam, Yugoslavia, Zaire and Zimbabwe.				
IX. SCALE OF ASSESSMENTS FOR APPORTIONMENT OF THE REGULAR BUDGET EXPENSES	25 - 26	5	3. The United Nations Development Programme was represented.				
X. WORKING CAPITAL FUND FOR THE BIENNIUM 1992-1993	27 - 28	5					
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XV. COMPUTERIZATION PROGRAMME OF UNIDO	36 - 37	7					

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4. In accordance with rule 17 of its rules of procedure, the Committee elected by acclamation A. A. Kherbi (Algeria) as Chairman; J. Tabajara de Oliveira (Brazil), S. Mathur (India), G. E. Clark (United Kingdom of Great Britain and Northern Ireland) as Vice-Chairmen; and N. V. Tchoulkov (Union of Soviet Socialist Republics) as Rapporteur.

5. The agenda for the seventh session as adopted by the Committee is contained in document PBC.7/1. Following the adoption of the agenda, the Director-General made an introductory statement, of which the relevant parts were considered by the Committee under each item of the agenda.

6. The report of the Programme and Budget Committee is submitted to the Industrial Development Board in accordance with Article 10.4 (d) of the Constitution.

7. The report contains the conclusions reached by the Committee. Statements made in connection with the adoption of conclusions are contained in annex I to the report. Annex II contains a list of documents submitted to the Committee at its current session.

8. The following conclusions of the Committee contain recommendations that call for action by the Board at its eighth session or are of relevance to the work of that session:

Conclusion	Subject
1991/2	Follow-up of recommendations of the External Auditor for the financial period 1988-1989
1991/3	Financial situation of UNIDO (including the use of unutilized balances of appropriations)
1991/4	Examination of 15 per cent reserve of total appropriations
1991/5	Medium-term plan, 1992-1997
1991/6	Programme and budgets, 1992-1993
1991/7	Scale of assessments for apportionment of the regular budget expenses
1991/8	Working Capital Fund for the biennium 1992-1993
1991/9	Application of split-currency system of assessment
1991/10	Industrial Development Fund
1991/11	Appointment of an External Auditor
1991/12	Organizational and staff structure
1991/13	Computerization programme of UNIDO

I. ORGANIZATIONAL MATTERS

9. On 22 April, the Committee considered a proposal by the Chairman to optimize the utilization of available conference-servicing resources and adopted conclusion 1991/1.

Conclusion 1991/1

The Committee, with the aim of utilizing the available conference-servicing resources to

the maximum extent possible, decided to suspend with immediate effect rule 24 of its rules of procedure relating to the quorum, for the meetings of its seventh session only, provided no substantive decisions were taken at those meetings.

10. The Committee also decided to set up informal in-session consultations with the aim of facilitating the drafting of conclusions and entrusted Vice-Chairman G. E. Clark (United Kingdom) to chair those consultations.

II. FOLLOW-UP OF RECOMMENDATIONS OF THE EXTERNAL AUDITOR FOR THE FINANCIAL PERIOD 1988-1989

11. On 22 April, the Committee considered the report by the Director-General on the follow-up of recommendations of the External Auditor for the financial period 1988-1989 (PBC.7/13).

12. On 26 April, after consideration of a draft conclusion on the follow-up of recommendations of the External Auditor for the financial period 1988-1989 submitted by the Chairman (PBC.7/L.5) the Committee adopted conclusion 1991/2.

Conclusion 1991/2

The Programme and Budget Committee:

(a) Recalled Board decision IDB.7/Dec.5 and considered the report of the Director-General on the follow-up of recommendations of the External Auditor for the financial period 1988-1989 (PBC.7/13);

(b) Recognized the important contribution the External Auditor makes to the enhancement of UNIDO's overall performance;

(c) Took note of the efforts of the Secretariat to comply with the recommendations of the External Auditor as set out in document PBC.7/13;

(d) Recommended to the Industrial Development Board that it request the Director-General to make available to interested Member States before the fourth session of the General Conference the manual on financial and accounting policies and procedures and to present the comments of the External Auditor on that manual to the first regular session of the Programme and Budget Committee in 1992;

(e) Requested also the Director-General to finalize as soon as possible, preferably before the first regular session of the Programme and Budget Committee in 1992, the compilation of a comprehensive manual containing the formal documentation of administrative policies and procedures of the Organization, especially on purchases and contracts;

(f) Recommended to the Industrial Development Board that it request the Director-General to implement, as a matter of urgency, practices and procedures aimed at a more equitable geographical distribution of sources of procurement, with particular regard to the need to increase procurement from developing countries; and, taking into account paragraphs 124 to 133 of the report of the External Auditor (PBC.6/15 and Corr.1),

requested further the Director-General to implement the measures recommended by the External Auditor to increase the role of developing countries through, *inter alia*:

- (i) International trade fairs and exhibitions;
- (ii) Federations of chambers of commerce and industry;
- (iii) Business advisory councils and such trade promotion bodies;
- (iv) The UNIDO Industrial and Technological Information Bank;
- (g) Requested the Director-General to include in the briefings for Chief Technical Advisers guidelines for proper purchasing and contracting practices, including national bids and economic and technical co-operation among developing countries where appropriate, together with information on the implementation of correct financial procedures;
- (h) Requested the Director-General to ensure that the Member States, through their permanent representations, be informed on a regular basis of future contracts for supplies and services for UNIDO Headquarters.

III. FINANCIAL SITUATION OF UNIDO

13. On 22 and 23 April, the Committee considered a report by the Director-General on the status of assessed contributions paid and of advances to the Working Capital Fund and cash flow analysis for 1991 (PBC.7/2 and Corr.1) and its update (PBC.7/CRP.4) and proposals by the Director-General on the use of unutilized balances of appropriations for the biennium 1986-1987 (PBC.7/15).

14. On 26 April, after consideration of a draft conclusion on the financial situation of UNIDO (including the use of unutilized balances of appropriations) submitted by the Chairman (PBC.7/L.3), the Committee adopted conclusion 1991/3.

Conclusion 1991/3

The Programme and Budget Committee:

(a) Considered the financial situation of UNIDO as reflected in documents PBC.7/2 and Corr.1 and PBC.7/15;

(b) Recommended to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(i) Considering the financial situation of UNIDO as reflected in the budget performance report, 1990-1991, as of 31 December 1990 (PBC.7/15, annex) and the cash flow analysis for the biennium 1990-1991 as at 28 February 1991 (PBC.7/2, annex III);

"(ii) Recalling General Conference decision GC.3/Dec.17 concerning the temporary suspension of financial regulations 4.2 (b) and 4.2 (c) with respect to the 1986-1987

biennium to allow UNIDO to retain the unutilized balances of the appropriations for that biennium;

"(iii) Approves and recommends that the General Conference at its fourth session approve:

"(a) A supplementary estimate of \$0.8 million for the regular budget for the fiscal period 1990-1991, in accordance with Article 14.5 of the Constitution, resulting from unforeseen increased costs, on the understanding that the basis for the draft estimates for 1992-1993 will not be increased;

"(b) The financing of that supplementary estimate as well as the financing of the shortfall in other income of \$3.5 million referred to in document PBC.7/15, by the use of the unutilized balance of appropriations from the 1986-1987 biennium;

"(c) The suspension of financial regulations 4.2 (b) and 4.2 (c) with respect to the unutilized balance of appropriations for the biennium 1986-1987 up to the amount of \$4.3 million; in other words, to authorize the Director-General to use the funds for this purpose;

"(iv) Approves and, subject to review prior to the fourth session of the General Conference to take account of actual exchange rates experienced through the remainder of 1991 and other factors that may arise, recommends that the General Conference at its fourth session approve the transfer of expenditures for the 1990-1991 biennium, as shown in annex IV of document PBC.7/2;

"(v) Also recommends to the General Conference that it approve at its fourth session the temporary suspension of financial regulations 4.2 (b) and 4.2 (c) with respect to the 1988-1989 biennium to allow UNIDO to retain the unutilized balances of appropriations of \$6,496,192, which comprises the surplus account balance of \$1,807,815 and unpaid assessed contributions of \$4,688,377 as reported in statement II attached to document PBC.7/16."

IV. USE OF UNUTILIZED BALANCES OF APPROPRIATIONS FOR THE BIENNIUM 1986-1987

15. On 23 April, the Committee considered the report by the Chairman of the sixth session of the Committee on the informal consultations on the suspension of financial regulations 4.2 (b) and 4.2 (c) (IDB.7/37) and the proposals by the Director-General on the use of unutilized balances of appropriations for the biennium 1986-1987 (PBC.7/15).

16. On 26 April, after consideration of a draft conclusion on the financial situation of UNIDO (including the use of unutilized balances of appropriations) submitted by the Chairman (PBC.7/L.3), the Committee adopted conclusion 1991/3 (see para. 14 above).

V. EXAMINATION OF 15 PER CENT RESERVE OF TOTAL APPROPRIATIONS

17. On 23 April, the Committee considered a proposal by the Director-General on the examination of the 15 per cent reserve of total appropriations (PBC.7/4).

18. On 26 April, after consideration of a draft conclusion on the examination of 15 per cent reserve of total appropriations submitted by the Chairman (PBC.7/L.11), the Committee adopted conclusion 1991/4.

Conclusion 1991/4

The Programme and Budget Committee:

(a) Recalled its conclusion 1990/4, paragraph (e) requesting the Director-General to prepare proposals permitting the Committee to examine the stipulation by the General Conference that for the 1990-1991 biennium an amount representing 15 per cent from the total amount of the appropriations should be kept in reserve pending receipt from Member States of their assessed contributions;

(b) Considered the information and proposal contained in document PBC.7/4 concerning the application of the 15 per cent budgetary reserve;

(c) Recommended to the Industrial Development Board for submission to the General Conference the proposal that, for the 1992-1993 biennium, an amount representing 15 per cent from the total amount of the appropriations should be kept in reserve pending receipt from Member States of their assessed contributions;

(d) Decided to defer the examination of the 15 per cent appropriation reserve rule and its application until the eighth session of the Programme and Budget Committee pending a more comprehensive analysis of alternatives.

VI. INTERIM FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT

19. On 22 April, the Committee considered the interim financial performance report for the biennium 1990-1991 submitted by the Director-General (PBC.7/16), the interim programme performance report as contained in the Annual Report of UNIDO, 1990 (IDB.8/10) and a note by the Secretariat on the status of assessed contributions to the regular budget as at 31 December 1990 (PBC.7/CRP.10).

20. On 26 April, the Committee, at the suggestion of the Chairman, took note of the interim financial performance report for the biennium 1990-1991 submitted by the Director-General (PBC.7/16) and of the distribution of the Annual Report of UNIDO, 1990 (IDB.8/10) which would be considered by the Board at its eighth session.

VII. MEDIUM-TERM PLAN, 1992-1997

21. On 23 April, the Committee considered a revised draft medium-term plan, 1992-1997, submitted by the Director-General (PBC.7/17).

22. On 26 April, after consideration of a draft conclusion on the medium-term plan, 1992-1997 submitted by the Chairman (PBC.7/L.6), the Committee adopted conclusion 1991/5.

Conclusion 1991/5

The Programme and Budget Committee:

(a) Recalled General Conference decision GC.2/Dec.23 on the programme and budget planning process and resolution GC.3/Res.21 on the medium-term plan, 1990-1995, as well as Industrial Development Board decision IDB.7/Dec.14 on the medium-term plan, 1992-1997;

(b) Having considered the revised draft medium-term plan contained in document PBC.7/17, recommended that the Director-General submit it to the Industrial Development Board together with the views expressed by members of the Programme and Budget Committee;

(c) Recommended to the Industrial Development Board that it submit to the General Conference for approval after due consideration, that revised version of the draft medium-term plan;

(d) Requested the Director-General to ensure that the priorities and the programmes mentioned in that version of the medium-term plan 1992-1997 are appropriately reflected in the forthcoming programme and budgets for the 1992-1993 biennium;

(e) Further requested the Director-General to identify, as appropriate, extrabudgetary resources for the implementation of the environment programme;

(f) Further requested the Director-General to have informal consultations with Member States on the preparation of the energy programme mentioned in the revised draft medium-term plan (PBC.7/17) and to present that programme to the policy-making organs for approval.

VIII. PROGRAMME AND BUDGETS, 1992-1993

23. On 24 and 25 April, the Committee considered the proposals of the Director-General for the programme and budgets, 1992-1993 (PBC.7/10 and Corr.1) and notes by the Secretariat on: the operational budget: delivery and income estimates, 1992-1993 (PBC.7/CRP.6 and Corr.1); inflation and other cost increases in the regular budget, 1992-1993 (PBC.7/CRP.7); common and joint services at the Vienna International Centre (PBC.7/CRP.8); revaluation of the budget base for the regular budget, 1992-1993 (PBC.7/CRP.9); and a note by the Director-General on the regular programme of technical co-operation (PBC.7/CRP.11).

24. On 26 April, after consideration of a draft conclusion on the programme and budgets, 1992-1993 submitted by the Chairman (PBC.7/L.4), the Committee adopted conclusion 1991/6.

Conclusion 1991/6

The Programme and Budget Committee, having considered the draft programme of work and the corresponding estimates for the activities to be financed from the regular and operational budgets as prepared by the Director-General and contained in document PBC.7/10 and Corr.1 as well as the further explanations provided in conference room papers PBC.7/CRP.6 and Corr.1, PBC.7/CRP.7-9 and PBC.7/CRP.11;

(a) Took note of the programme of activities for 1992-1993 contained in document PBC.7/10 and Corr.1;

(b) Took note with concern of major uncertainties in the budgets, namely:

- (i) Should the Industrial Development Board decide to recommend to the fourth session of the General Conference the reorganization of the staff structure, revised estimates would have to be submitted in time for the General Conference;
- (ii) Once the recommendations of the consultants as to the future electronic data-processing (EDP) needs of the Organization were known, the corresponding revised estimates would have to be drawn up and submitted for approval to Member States;
- (iii) The assumption of the Director-General that Australia would rejoin the Organization in time for the 1992-1993 biennium;

(c) Requested the Director-General, for the purpose of preparing the draft programme and budgets for the 1992-1993 biennium, to maintain the vacancy factor applied in the current fiscal period. In the case any State joins the Organization before the fourth session of the General Conference the vacancy rate should be adjusted accordingly;

(d) Was unable at that stage, in light of the above uncertainties, to recommend to the Industrial Development Board the adoption of the budget contained in document PBC.7/10 and Corr.1 and therefore further requested the Director-General to revise accordingly his budget proposals for the 1992-1993 biennium;

(e) Requested the Director-General to convene a resumed seventh session of the Programme and Budget Committee on 27 June 1991 with the aim of resolving uncertainties in the light of information that will then be available;

(f) Further requested the Director-General:

- (i) To submit proposals to the Industrial Development Board for the introduction of rules for the use of operational budget reserves as contained in document PBC.7/2, paragraph 10;
- (ii) To present to the eighth session of the Industrial Development Board details concerning the use of the

Tax Equalization Fund especially with regard to the credits assigned to Member States, as well as to present proposals for the texts still in brackets, namely financial regulations 5.2 (e) and 5.3;

(g) Noted that the exchange rate applied in those estimates of US\$1 = AS 12.90 for the regular and operational budgets will be revised prior to the end of the fourth session of the General Conference;

(h) Noted that the inflation rates will also be updated prior to the end of the fourth session of the General Conference;

(i) Requested the Director-General to ensure that, in the future, rules 6 and 8.2 of the rules of procedure of the Programme and Budget Committee are complied with and in that light to present the first advance draft of the programme and budget for 1994-1995 by 1 December 1992 for the consideration of Member States.

IX. SCALE OF ASSESSMENTS FOR APPORTIONMENT OF THE REGULAR BUDGET EXPENSES

25. On 24 April, the Committee considered a note by the Secretariat on the scale of assessments for the fiscal period 1992-1993 (PBC.7/6).

26. On 26 April, after consideration of a draft conclusion on the scale of assessments for apportionment of the regular budget expenses submitted by the Chairman (PBC.7/L.7), the Committee adopted conclusion 1991/7.

Conclusion 1991/7

The Programme and Budget Committee:

(a) Considered the information contained in document PBC.7/6, and requested the Director-General to submit to the eighth session of the Industrial Development Board through the resumed seventh session of the Programme and Budget Committee a scale of assessments for regular budget expenditures for 1992-1993 calculated on the basis of the current membership of the Organization;

(b) Proposed to the Industrial Development Board that it recommend to the General Conference the establishment of a scale of assessments for the biennium 1992-1993 based on the scale currently employed by the United Nations to be adjusted as soon as the United Nations scale for the calendar years 1992 to 1994 becomes available and subject to the possibility that any State announces, prior to the fourth session of the General Conference, its intention to join the Organization.

X. WORKING CAPITAL FUND FOR THE BIENNIUM 1992-1993

27. On 23 April, the Committee considered a report on the status of advances to the Working Capital Fund as of 28 February 1991 (PBC.7/2 and Corr.1 - annex II) and its update (PBC.7/CRP.4) and a note by the Director-General containing proposals for the Working Capital Fund for the biennium 1992-1993 (PBC.7/9).

28. On 26 April, after consideration of a draft conclusion on the Working Capital Fund for the biennium 1992-1993 submitted by the Chairman (PBC.7/L.1), the Committee adopted conclusion 1991/8.

Conclusion 1991/8

The Programme and Budget Committee:

(a) Took note of the proposals of the Director-General for the Working Capital Fund for the biennium 1992-1993 (PBC.7/9-IDB.8/7);

(b) Recommended to the Industrial Development Board that it:

(i) Recommend to the General Conference that the level of the Working Capital Fund and the authorized purposes of the Fund for the 1992-1993 biennium remain the same as for the 1990-1991 biennium, i.e. as stipulated in decision GC.2/Dec.27, paragraph (b);

(ii) Urge Member States to pay their outstanding assessed contributions as soon as possible to facilitate reimbursement to the Working Capital Fund.

XI. APPLICATION OF SPLIT-CURRENCY SYSTEM OF ASSESSMENT

29. On 24 April, the Committee considered a report by the Director-General on the review of the split-currency system of assessment (PBC.7/5) and a note by the Secretariat on comparison of assessments at various exchange rates (PBC.7/CRP.3).

30. On 26 April, after consideration of a draft conclusion on the application of split-currency system of assessment submitted by the Chairman (PBC.7/L.8), the Committee adopted conclusion 1991/9.

Conclusion 1991/9

The Programme and Budget Committee:

(a) Took note of the report of the Director-General on the review of the split-currency system of assessment contained in document PBC.7/5;

(b) Recommended to the Industrial Development Board that the appropriation approved for 1992-1993 be assessed in the proportions of 11 per cent in United States dollars of the appropriation expressed at US\$1 = AS 12.90 and the balance in Austrian schillings (at which US\$1 = AS 12.90 the United States dollar equivalent of the Austrian schilling proportion represents 89 per cent of the total assessment);

(c) Requested the Secretariat:

(i) To continue to examine the feasibility of introducing a system of constant dollar reporting for the 1992-1993 biennium;

(ii) To continue to monitor the expenditure patterns and further improve the expenditure review mechanisms;

(iii) To report to the Committee at its eighth session on progress made;

(iv) To report on future budgets on the basis of the exchange rate approved by the General Conference for the respective budgets.

XII. INDUSTRIAL DEVELOPMENT FUND

31. On 24 April, the Committee considered a report by the Director-General on the estimated resource level and programming for 1992 and 1993 (PBC.7/14 and Corr.1), information on the nature of projects financed from the Fund, contained in the Annual Report of UNIDO, 1990 (IDB.8/10, chap. VIII, paras. 16-21, and appendix H), and lists of projects approved under the Industrial Development Fund (PBC.7/CRP.1).

32. On 26 April, after consideration of a draft conclusion on the Industrial Development Fund submitted by the Chairman (PBC.7/L.9), the Committee adopted conclusion 1991/10.

Conclusion 1991/10

The Programme and Budget Committee recommended to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report of the Director-General on the estimated resource level and programming for 1992 and 1993 for the Industrial Development Fund (IDF), contained in document PBC.7/14;

"(b) Considers that IDF should continue to be an important source of funds and an effective instrument for UNIDO and believes that further improvements in its functioning are necessary to this end;

"(c) Decides to delegate authority to the Director-General to approve projects for financing under the Fund in 1992-1993 in accordance with the priority areas of the medium-term plan, 1990-1995 (GC.3/17, chap. I);

"(d) Recognizes that whilst IDF projects should continue to cover the needs of various regions of the world and, in particular, of developing countries at different stages of industrial development, UNIDO should follow a judicious approach in the choice of industrial projects, with prime consideration placed on impact and quality and, in this respect, believes that projects for which highly technical implementation capabilities are necessary may require full agency execution;

"(e) Expresses support for the main programming lines of IDF indicated in document PBC.7/14, chapter II, section A (paras. 5-12), emphasizes that the role and quality of country and regional focus should be enhanced and requests the Director-General:

"(i) To describe more in detail the notion of 'programme approach' as well as its practical and effective application modalities;

"(ii) To describe and better define the UNIDO approach to investment promotion and provide more detail on recommended linkages with credit lines offered by bilateral sources, the World Bank, regional banks etc., and on the use of IDP promotional activities as 'seed money' for investment;

"(f) Welcomes the intended improvement in quality of IDP projects as outlined in document PBC.7/14, especially in paragraphs 13 to 16, and requests more detailed information on the UNIDO definition of 'quality' - in particular on 'quality measurements' of projects - as well as on project appraisal, monitoring and evaluation mechanisms;

"(g) Commends the intentions of the Secretariat, as indicated in paragraph 17 of document PBC.7/14, to introduce a number of time- and cost-saving measures aimed at streamlining procedures;

"(h) With reference to paragraph 20 of the same document relating to an increase in the size of the general-purpose segment of the Fund, requests the Director-General to provide detailed information on the programming criteria of the general convertible pool, to encourage a larger and more favourable response from sponsoring Governments in contributions to this segment of the Fund;

"(i) Urges Member States to reconsider their IDP pledging policies to ensure that the desirable annual funding level of \$50 million be reached as soon as possible;

"(j) Encourages Member States to consider providing umbrella contributions for financing preparatory assistance activities of large-scale projects and programmes (cf. PBC.7/14, para. 17(c));

"(k) Underlines the need for IDP to match the expectations of recipient countries with the funds available from donors; recommends a close co-ordination and administration of the contributions, as well as careful tailoring of the projects to these circumstances; and to this end recommends that the growth of the Fund should be matched by adequate staffing of the organizational unit responsible through recruitment to fill vacant posts and through redeployment;

"(l) Requests the Director-General to supply the information called for as soon as possible and, in any case, not later than at the General Conference at its fourth session in November 1991."

XIII. RECOMMENDATIONS FOR APPOINTMENT OF AN EXTERNAL AUDITOR

33. On 22 April, the Committee considered a note by the Secretariat on the question of appointment of an external auditor (PBC.7/11) and a subsequent oral proposal by the Chairman, and adopted conclusion 1991/11.

Conclusion 1991/11

The Committee recommended to the Industrial Development Board that it propose to the General Conference an extension of the present appointment of the Senior President of the Audit Office of Belgium as the External Auditor of UNIDO for a period of two years, from 1 July 1992 to 30 June 1994, under the terms of reference specified in the Financial Regulations of UNIDO.

XIV. ORGANIZATIONAL AND STAFF STRUCTURE

34. On 24 and 25 April, the Committee considered the report of the open-ended working group of the Board on organizational and staff structure (PBC.7/12 and Corr.1).

35. On 26 April, after consideration of a draft conclusion on organizational and staff structure submitted by the Chairman (PBC.7/L.10), the Committee adopted conclusion 1991/12.

Conclusion 1991/12

The Programme and Budget Committee:

(a) Recalled General Conference decision GC.2/Dec.22 and resolution GC.3/Res.20, as well as Industrial Development Board decision IDB.7/Dec.23 and PBC.7/12 and Corr.1 concerning the organizational and staff structure of UNIDO;

(b) Took note with appreciation of the report of the Working Group on this subject;

(c) Decided to transmit the report to the Industrial Development Board at its eighth session in July 1991 for more detailed consideration;

(d) Requested the Director-General to present, through the eighth session of the Industrial Development Board, a report containing the findings of the Working Group and the Industrial Development Board session, and the Director-General's comments concerning the organizational and staff structure to the General Conference at its fourth session with a view to reaching a decision on this matter.

XV. COMPUTERIZATION PROGRAMME OF UNIDO

36. On 23 April, the Committee considered a report by the External Auditor on the results of a specific, in-depth external audit examination of the electronic data-processing system acquisition project of UNIDO (PBC.7/3 and Corr.2), the comments submitted by the Director-General on the report of the External Auditor (PBC.7/7), a report by the working group of independent experts on the

computerization of UNIDO (PBC.7/B and Add.1), a report by the Director-General on the implementation of Board decision IDB.7/Dec.26 (PBC.7/18) and a summary of positions expressed at a meeting of the Vienna-based organizations of the United Nations system on their computer capacities (PBC.7/CRP.2).

37. On 26 April, after consideration of a draft conclusion on the computerization programme of UNIDO submitted by the Chairman (PBC.7/L.12), the Committee adopted conclusion 1991/13.

Conclusion 1991/13

The Programme and Budget Committee:

(a) Recalled decision IDB.7/Dec.26 of the Industrial Development Board concerning the computerization programme of UNIDO;

(b) Took note of the report of the External Auditor on the in-depth examination of all aspects of the acquisition of the electronic data processing system (PBC.7/3 and Corr.2), the report of the Working Group of Independent Experts on the computerization of UNIDO (PBC.7/B and Add.1), the report of the Director-General (PBC.7/18) and considered the comments of the Director-General on the report of the External Auditor (PBC.7/7);

(c) Recommended to the Industrial Development Board that it endorse exceptionally and retroactively the appointment of consultants as recommended by the Working Group of Independent Experts and as an exceptional measure the temporary appropriation of \$240,000 from the operational budget to meet the fees involved;

(d) Expressed its gratitude to the consultants for having given an informal briefing and interim report, and requested the Director-General to make available the further findings and recommendations of the consultants at an informal briefing and through a conference room paper before the resumed seventh session of the Programme and Budget Committee;

(e) Requested the Director-General, subject to the endorsement of the Industrial Development Board at its eighth session, and until that session, not to exceed an amount of \$2.2 million on expenditure related to the electronic data-processing system; and to submit full details of the incurred expenditure on those operations to the eighth session of the Board;

(f) Requested the Director-General, on the basis of the reports of the External Auditor (PBC.7/3 and Corr.2), the independent group of experts (PBC.7/B and Add.1) and the findings of the consultants, with the aim of reducing the general costs of the electronic data-processing programme, to pay particular attention to those contracts, for example the facilities management contract which can be terminated or amended with effect from 1 January 1992 by giving written notice before the end of June 1991.

XVI. DATE OF THE EIGHTH SESSION OF THE COMMITTEE

38. On 26 April the Committee adopted conclusion 1991/14.

Conclusion 1991/14

The Committee decided to hold its eighth session from 29 June to 3 July 1992.

XVII. ADOPTION OF THE REPORT AND SUSPENSION OF THE SEVENTH SESSION

39. On 26 April the Committee adopted the draft report of its seventh session (PBC.7/L.2), with the understanding that the Rapporteur would be entrusted with the task of finalizing the report.

40. On 26 April at 7.15 p.m. the seventh session of the Committee was suspended to be resumed on 27 June 1991 for the consideration of the programme and budgets, 1992-1993 (see conclusions 1991/6 and 1991/7).

Annex I

STATEMENTS BY DELEGATIONS

1. The present annex contains statements of principle delivered by delegations in connection with the adoption of conclusions at the Programme and Budget Committee during its seventh session. These statements have been included at the request of the delegations concerned and as agreed to by the Chairman.

Financial situation of UNIDO (including the use of unutilized balances of appropriations)
(cf. chap. III and IV)

2. In connection with the adoption of conclusion 1991/3, the delegation of Venezuela stated that it had decided not to oppose the consensus, despite their reservations concerning the constant suspension of the financial regulations and the treatment of unutilized balances as supplementary estimates for subsequent bienniums. Furthermore, the delegation did not agree that resources allocated for activities of importance to developing countries should be redeployed to objects of expenditure not expressly adopted by the General Conference.

3. The delegation of Brazil stated that, while not wishing to break the consensus on conclusion 1991/3, it was nevertheless the understanding of their Government that the rules adopted by the General Conference should be respected and that their repeated suspension should not turn an exception into the rule. The delegation, therefore, wished to express Brazil's disagreement with such practice. Specifically concerning paragraph (b)(iv) of the conclusion, the delegation stated most strongly Brazil's reservation to the transfer of funds from one object of expenditure to another.

4. The delegation of the United States of America stated that they wished to disassociate from, but not block, consensus on conclusion 1991/3. Their concerns related to paragraph (b)(iv) of the conclusion which would temporarily suspend financial rules 4.2(b) and 4.2(c) with regard to the unutilized balances for the 1988-1989 biennium. In view of the other action proposed in the same conclusion, namely approval to use \$4.3 million from 1986-1987 balances to meet projected shortfalls in 1990-1991, the delegation was not persuaded that similar action needed to be taken with the 1988-1989 balances as well, and accordingly found no basis for suspension of the financial rules regarding the 1988-1989 balances.

5. The delegation of Japan reiterated its position on paragraphs (b)(iii)(a) and (b) of conclusion 1991/3, namely that the unutilized balance of appropriations for the biennium 1986-1987 should not be spent for financing shortfalls. While not wishing to block the consensus on the conclusion, the delegation thought that such a decision should be an exception for the use of the unutilized balances for the biennium 1986-1987 only and should not set a precedent, in the case of the unutilized balances for the 1988-1989 biennium.

6. The delegation of Switzerland stated that they had joined the consensus but only with the greatest reluctance. Paragraph (b)(iii) was the subject of formal reservations on their part. The delegation

was prepared to agree that the unutilized balance of appropriations for the biennium 1986-1987 should not be returned to the Member States. They were not, however, able to accept the justification for the utilization of that balance as set out in document PBC.7/15. In addition, the delegation's definitive agreement concerning paragraph (b)(v) depended on the utilization proposed in due course by the Secretariat for the unutilized balance of appropriations for 1988-1989. Their consent was therefore confined solely to the principle of suspension of financial regulations 4.2(b) and 4.2(c).

Programme and budgets, 1992-1993 (cf. chap. VIII)

7. In connection with the adoption of conclusion 1991/6, the delegation of Switzerland noted that the Organization was planning in 1992 and 1993 to increase technical cooperation by 16 per cent, while the following conditions prevailed:

- an income amounting to little more than 70 per cent of the total of Member States' contributions, without taking into account a 15 per cent reserve to be deducted from this percentage;
- a current vacancy rate of 11.4 per cent;
- a regular budget which did not provide additional resources for the operational divisions;
- part of the operational budget siphoned off to cover data-processing costs;
- the debt to the United Nations.

The delegation suggested that in those circumstances the necessary balance between expenditures and income could be achieved by doing something other than merely suspending the rules and manipulating the vacancy rate. For example, by staff economies through restructuring and, if necessary, selective reductions in programmes. Only in that way would UNIDO be able to give priority to quality and not just the quantitative results that the Organization liked to put in the forefront. The confidence placed in the Organization would depend during the months ahead on how it reacted to the problem of balancing expenditure and income. If the Director-General and his Organization did nothing between now and the Board session in July to dispel the impression of having a "champagne budget on a beer income", Switzerland would be compelled to confirm its reservations concerning the approval of the programme and budget for 1992-1993.

8. The delegation of the United States of America said that it had expressed its serious concern with the proposed budget during the discussion of the item in the plenary. Specifically, the delegation could not support a regular budget level that would increase Member State assessments by 17 per cent from one biennium to the next. The delegation stated further that there was insufficient evidence to show that UNIDO had made substantial efforts to absorb an appreciable share of the mandatory cost increases. It hoped that that problem could be resolved before the resumption of the

seventh session of the Programme and Budget Committee, so that a budget and the programmes that depend on it could be approved.

Application of split-currency system of assessment
(cf. chap. XI)

9. The delegation of Venezuela stated that, in keeping with the constructive spirit repeatedly demonstrated during the deliberations of the Committee, it did not oppose the consensus on the adoption of conclusion 1991/9. Nevertheless the delegation reiterated that, for reasons explained at length on previous occasions, the Government of Venezuela was not in favour of abandoning the current ratio of 15 per cent dollars and 85 per cent schillings in the split-currency system of assessment.

10. The delegation of Brazil expressed the same position as the delegation of Venezuela.

General

11. Speaking on behalf of the Member States of the European Community, the delegation of the Netherlands said that they regretted that the present session of the Programme and Budget Committee had been inconclusive because it had been unable to perform its principal task namely, to approve the UNIDO programme and budgets, due to the fact that a number of elements that were basic requirements for that exercise were not available. Consequently, a resumed seventh session of the Committee had had to be scheduled for late June. That could only be deplored. The Member States of the European Community attached great importance to UNIDO's basic aims as a tool of development. However, as they had previously pointed out, it was difficult for the Organization to implement approved programmes and projects properly, given the high percentage of unpaid assessed contributions. On the other hand, the Secretariat did not always seem to be able to assess the correct relationship between available funds and obtainable goals. Those difficulties were compounded by the fact that Member States had been put in a position where they might have to fund substantial additional obligations that went far beyond the sums initially authorized.

All that could only lead to the detriment of technical co-operation programmes and of the Organization itself. The Member States of the European Community very much hoped that the comprehensive, in-depth effort that was required from everybody involved in order to remedy this situation, would indeed be forthcoming. The twelve European Community Member States were willing to participate in a common endeavour towards that goal.

12. The delegation of Bolivia emphasized the importance of some matters contained in the draft conclusions which were submitted to the plenary and which had been the subject of some controversy in the process leading up to consensus. It stated that the recommendation concerning adjustments to the 1990-1991 budget of the Organization with the assignment of supplementary funds charged to the balances from 1986-1987 had been accepted in a constructive spirit by Member States, in the knowledge that the data-processing system was largely the cause of the financial imbalance. With regard to the balances from 1988-1989, and the suspension of the relevant financial regulations, for a similar purpose, this had also been noted in the hope that it would not become a habit in the future. The delegation did not agree that the only way of solving those problems should be by the habitual utilization of balances. Similarly, the delegation wished to express dissatisfaction with the recommendation for the transfer of expenditures for the 1990-1991 biennium. In conclusion the delegation trusted that, in the process of correcting the current financial problems, programmes would not be affected, particularly those aimed at the participation of private enterprise in developing countries, such as investment promotion and trust funds.

13. The delegation of Poland said that it would like to associate itself with the statement made on behalf of the Member States of the European Community. The delegation also attached great importance to UNIDO activities and had full confidence that the Organization would soon be able to overcome the existing difficulties. It was likewise willing to participate actively in solving all the problems facing UNIDO.

Annex II

LIST OF DOCUMENTS SUBMITTED TO THE SEVENTH SESSION

Symbol	Agenda item	Title
PBC.7/1	3	Provisional agenda
PBC.7/1/Add.1	3	Annotated provisional agenda
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PBC.7/8 IDB.8/6	17	Report of the group of independent experts on the computerization of UNIDO (Vienna, 11-14 February 1991)
PBC.7/8/Add.1 IDB.8/6/Add.1	17	Report of the working group of independent experts on the computerization of UNIDO (Vienna, 11-14 February 1991). Addendum
PBC.7/9 IDB.8/7	12	Proposals for the Working Capital Fund for the biennium 1992-1993. Note by the Director-General
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PBC.7/18 IDB.8/12	17	Computerization programme of UNIDO. Report by the Director-General
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PBC.7/CRP.1	14	Lists of projects approved under the Industrial Development Fund (IDF) in 1990. Prepared by the Secretariat
PBC.7/CRP.2	17	Computer capacities of the Vienna-based organizations of the United Nations system. Summary of the positions of the Vienna-based Organizations, as expressed at a meeting held on 18 January 1991

Symbol	Agenda item	Title
PBC.7/CRP.3	13	Application of the split-currency system of assessment. Comparison of assessments at various exchange rates. Note by the Secretariat
PBC.7/CRP.4	5,12	Status of assessed contributions and of advances to the Working Capital Fund. Note by the Secretariat
PBC.7/CRP.5	3	Annotations to the provisional agenda: List of documents. Note by the Secretariat
PBC.7/CRP.6 and Corr.1	10	Programme and budgets, 1992-1993. Operational budget: delivery and income estimates, 1992-1993. Note by the Secretariat
PBC.7/CRP.7	10	Programme and budgets, 1992-1993. Inflation and other cost increases in the regular budget, 1992-1993. Note by the Secretariat
PBC.7/CRP.8	10	Programme and budgets, 1992-1993. Common and joint services at the Vienna International Centre. Note by the Secretariat
PBC.7/CRP.9	10	Programme and budgets, 1992-1993. Revaluation of the budget base for the regular budget, 1992-1993. Note by the Secretariat
PBC.7/CRP.10	8	Interim financial performance report and programme performance report. Status of assessed contributions to the regular budget as at 31 December 1990. Note by the Secretariat
PBC.7/CRP.11	10	Programme and budgets, 1992-1993. Regular programme of technical co-operation. Note by the Director-General
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